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Socio-Economic Series

Issue 63

MUNICIPAL PLANNING FOR AFFORDABLE HOUSING

Introduction

The land use planning process and associated regulatory and revenue raising mechanisms are highly important spheres of activity which are within municipal jurisdiction, and which can produce, or influence the production of, affordable housing.

Objectives and Methodology

Canada Mortgage and Housing Corporation commissioned the study, "Municipal Planning for Affordable Housing", to consolidate existing knowledge on six land use planning and associated financial mechanisms that are currently in use by municipalities in North America for new affordable housing and that have some promise for expanded use in Canadian cities.

These are:

- inclusionary zoning;
- linkage programs;
- density bonusing;
- alternative development standards;
- performance based planning and other flexible planning approaches; and,
- development cost charges on an area basis.

Each of these measures has been the subject of previous CMHC research. Consequently, the research design had two main elements: reviewing the previous CMHC studies and other pertinent literature; and obtaining views from the planning and development community. The review of North American literature on affordable housing, and municipal regulatory and financial instruments covered both government-related documents and web-sites, along with the academic and professional literature. Expert opinion was gathered using two techniques: a mail out survey to affordable housing providers including municipal and provincial planning and housing officials, developers and builders, local politicians and housing consultants; and,

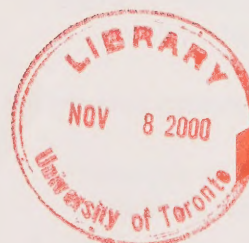
focused workshops were conducted to examine the measures in six urban regions across the country (Vancouver, Calgary, Toronto, Ottawa, Montreal, and Halifax). Survey respondents and workshop participants were asked to report on their experience with the six measures, and the feasibility of their use in the local housing market.

Findings**Inclusionary Zoning**

Inclusionary zoning requires, as a condition of approval, that a development project includes some special component desired by the municipality, usually affordable housing. The application of these inclusionary requirements is often limited to multiple-unit residential projects and large-scale developments. The resulting inclusionary units become part of an ongoing pool of affordable housing, which can only be sold to qualified recipients at affordable prices.

The first U.S. inclusionary zoning policy was created in 1971, in Fairfax County, Virginia and the next year a similar ordinance was instituted in neighbouring Montgomery County, Maryland. Following that, inclusionary zoning took hold in quickly growing suburban regions of the United States, paralleling the cutback in federal funding for low cost housing.

Since 1988, the City of Vancouver has required that certain major developments include 20 per cent social housing. In Ontario, many municipalities adopted inclusionary zoning policies in their official plans in response to provincial policy that previously encouraged them to do so.



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In considering the potential for expanded use of inclusionary zoning, certain conditions seem better suited for this measure:

- better in larger developments. Smaller projects may not bear the cost of meeting inclusionary requirements;
- better in high-growth areas. In slow growth areas, developers can “wait it out” if authorities impose IZ requirements that the developers consider too costly. In active markets, developers would be less willing to employ this holdout strategy; and,
- better in higher-density districts: in less dense districts, developers have trouble meeting inclusionary requirements and density bonuses often can't serve as an inducement because the project doesn't need the density increases.

In summary, the advantages of inclusionary zoning are:

- it has significant potential to produce affordable housing, especially when applied on a mandatory basis; and,
- it is relatively inexpensive for municipalities to institute.

And the disadvantages are:

- it is not popular with developers and builders; and,
- its effectiveness decreases in places that are not growing quickly, and in smaller housing projects.

Linkage Programs

Linkage fees are levied on commercial development in order to meet the increased demand for affordable housing that results from that development. As a condition of development approval, the fees are paid by developers into a municipal fund dedicated to the building of low- and moderate-priced housing. Most programs give the developer the option of building affordable housing themselves in lieu of paying the fees.

San Francisco's planning department originated the concept of linkage fees when it instituted its program in 1981. Other cities experiencing robust downtown growth—such as Boston, Seattle, Miami, and Washington—soon followed suit with programs of their own.

In Canada, several western municipalities have experience with linkage programs, including Richmond and Whistler in BC, and Banff in Alberta. In Banff, the program was set up in 1990 to help alleviate the chronic shortage of housing for employees in the tourist industry.

Linkage fees appear to have the greatest potential for further use in areas where:

- there is strong commercial development (especially large projects that could easily shoulder the linkage fees);

- municipalities can demonstrate a direct link between commercial development and housing shortages; and,
- there is provincial enabling legislation to specifically allow linkage fees.

Linkage programs have a number of important advantages:

- in communities with unbalanced growth (e.g., in tourist areas, or cities with strong commercial development downtown), linkage fees can help address the affordability issue and defuse calls for growth controls;
- they can generate considerable sums of money for affordable housing programs in a short period of time; and,
- they are often supported by residents in communities affected by housing shortages.

Disadvantages include:

- municipalities trying to attract commercial development may shy away from imposing linkage fees;
- may make certain developments unprofitable; and,
- may be open to challenge on technical or legal grounds, i.e., questioning whether housing problems can be linked to incoming developments.

Density Bonusing

Density bonusing is a mechanism that allows developers to add more floor area or additional density in exchange for the provision of certain facilities and services that benefit the community. Facilities and services may include daycare, recreational facilities, community centres, or affordable housing.

Density bonusing is most often used in central cities, especially in the commercial core. It can be applied to commercial projects – mainly for major office projects but sometimes retail and hotel projects – or for larger residential projects.

In the U.S., New York was the first city to use density bonusing back in 1961. From there, use of the instrument spread to other large and growing cities, such as Washington, Delaware, Hartford and Seattle.

In Canada, the City of Toronto has long experience in using density incentives to secure public benefits. Other Canadian cities, notably Vancouver and Burnaby, have also used residential density bonusing systems.

Density bonus programs have been successfully applied in major downtown areas and other developed areas such as on waterfronts and major highways. Only in these areas can valuable revenue-generating space be offered in sufficient quantity to invite participation by developers.

Conditions conducive to the application of density bonusing include:

- From a community acceptance point of view, density bonusing works best in already dense settings and where public services can support additional populations; and
- Density bonusing by municipalities requires provincial enabling legislation. Such legislation exists in Ontario, British Columbia, and Nova Scotia. The use of density bonusing in other provinces would require legislative changes.

The advantages of density bonusing include:

- can deliver substantial number of affordable units when applied to larger projects, central areas, and expanding markets;
- can obtain affordable housing from the private sector with a minimum of municipal involvement; and,
- can be used to increase densities where this is desired for planning purposes (e.g., to encourage intensification of downtown areas and around transit stations).

Disadvantages include:

- won't work where developers are not interested in achieving higher densities;
- its implementation requires special studies and extensive community consultation; and,
- may be challenged as giving too much discretion to municipal officials who make “deals” with developers.

Alternative Development Standards

Alternative development standards are flexible planning and engineering standards that provide a range of alternatives to the current standards used for the design and construction of communities. Alternative development standards can be divided into two categories: planning standards (e.g., reduced setbacks, narrower lot sizes); and, engineering standards (e.g., reduced road allowance and on-street parking). Using alternative standards can result in a net cost reduction per dwelling unit, both because of lower construction costs and more efficient use of land.

The use of alternative development standards in Canada has been spread primarily through the widening interest in New Urbanist designs. At present, there are over 30 New Urbanist communities completed or under development in Canada. Most of these are in three provinces: Ontario, British Columbia and Alberta. Projects using alternative development standards include McKenzie Town in Calgary, Cornell in Markham, and Bois Franc in Montreal.

The conditions that lend themselves to the use of ADS include:

- a site with unusual dimensions where conventional standards are hard to apply;
- an infill project that uses ADS to approximate older, established neighbourhood form; and,
- the presence of supportive municipal policy, such as affordability, environmental protection, etc.

The advantages of alternative development standards include:

- most provinces have already created a positive regulatory environment for the development and implementation of ADSs; and,
- the concept of using ADS is increasingly accepted both within the community and within professional circles.

Disadvantages include:

- there is no guarantee that cost-savings from ADS will be passed on to the consumer; and,
- ADS will not necessarily contribute to affordability if they are not used in a supportive planning framework.

Performance Based Planning and Other Flexible Planning Approaches

Performance based planning is an alternative to conventional zoning and the traditional processes of zoning administration. Municipalities using this approach regulate land use not based on proposed use, location, and dimensions of the development, but on the basis of the actual impacts, measured against predetermined standards. Thus, it allows for more flexible regulation in terms of land use and building envelope. The increased flexibility can enhance housing choice, which may improve housing affordability.

Performance based planning is most advanced in its application in Australia, where senior governments have been promoting the concept through model codes since the early 1990s.

In the U.S., a number of jurisdictions have adopted comprehensive PBP systems, starting in 1973 with Bucks County, Pennsylvania and then spreading to a number of other cities, including Fort Collins, Colorado.

In Canada, there is no comprehensive performance based planning system currently in place. However, a number of Canadian municipalities have adopted some of the key principles of performance based planning. For instance, elements of the approach can be found in the flexible zoning practices associated with some New Urbanist developments and in the Comprehensive Development Zones being used in Burnaby and elsewhere in BC.

The greatest potential for further use of this measure is in:

- urban municipalities that have identified older areas in transition that would benefit from more flexible zoning practices, such as redeveloping brownfields sites;
- suburban municipalities considering innovative forms of development, such as New Urbanism; and,
- municipalities where innovative development is being stalled by the rigidities of conventional zoning.

Advantages of this measure include:

- offers greater flexibility than conventional zoning;
- creates conditions for more affordable housing through increased density and mixed use and by allowing innovative projects to go ahead in transition areas; and,
- could improve quality of urban design.

Disadvantages include:

- has less predictable outcomes for developers and gives more discretion to municipal officials;
- depending on type of flexible planning, may require legislative changes in some provinces; and,
- no guarantee that it will result in more affordable housing.

Development Charges on an Area Basis

Development charges are fees paid by developers to municipalities in order to help finance the off-site capital costs associated with community growth. In most provinces, they cover such things as water and sewerage mains, drainage, major roads and bridges, and parks.

One way of using development charges to encourage affordable housing would be to make the charges proportional to the size of the housing unit or lot being developed, (e.g., on the basis of the square metre of floor area, the lot area, or on the front metre of the lot). Municipalities in Alberta, Saskatchewan and Quebec typically use area-based approaches. For instance, in Calgary, the development charge system is based on lot frontage, as it is in Saskatoon and Laval. The City of North Vancouver switched from a per-unit to an area-based approach in 1997.

Development charges on an area basis can best be applied in:

- municipalities in provinces with legislation empowering municipalities to adopt development charge bylaws, that is BC, Alberta, Saskatchewan, Ontario and Quebec.
- municipalities with high development charges, where the effect of switching from a unit to an area based charge are more likely to have an impact on developer decision making.
- municipalities with suburban areas that are growing quickly and that do not want to burden existing residents with property tax increases to pay for new or expanded infrastructure
- in central cities with strong real estate markets and affordability problems.

Advantages of this measure include:

- could increase production of affordable housing units where charges are high and growth is brisk
- many municipalities already have a development charge system in place and it is relatively easy to switch to an area-based system.

Disadvantages include:

- because impacts on housing production are indirect, it may have weak or uncertain impacts on affordability
- not applicable in slow growth areas where development charges are not appropriate.

Integrating the Measures

Municipalities are increasingly interested in exploring measures to boost the private supply of affordable housing within their jurisdiction. Not surprisingly then, many of the measures that have been profiled here are seeing increasing use in major centres across Canada and the U.S. As experience with individual measures accumulates, municipalities are also exploring the potential for combining measures as part of an integrated housing strategy, either for individual sites or the municipality as a whole.

The potential of these measures is sometimes compromised by the lack of an integrated framework within which they can be placed. For example, a municipality that adopts policies to encourage the use of ADSs is unlikely to see much progress on housing affordability in the absence of broad policies to support compact development with a mix of housing types. In fact, many New Urbanist communities employing alternative development standards are characterized by detached housing and geographical segregation of different housing types.

Likewise, the application of PBP has sometimes had a counterproductive effect on housing affordability. This can happen if large amounts of land are dedicated to the buffering and separation of incompatible uses, reducing densities and boosting land costs.

Linking these and other housing affordability measures to a municipal development plan would help improve their effectiveness and obviate some of the undesired side effects of their use. Integrating affordable housing measures into broader community goals and plans relies heavily on partnerships with community actors, such as non-profit and private developers, financial institutions, and community agencies. These partnerships are useful in terms of setting goals, leveraging resources, obtaining community support and implementing housing policies. This highlight has shown the significant potential of several land use planning measures that are conducive to these goals.

CMHC and the Canadian Centre for Public Private Partnerships in Housing

CMHC's Canadian Centre for Public-Private Partnerships in Housing (CCPPPH) promotes and facilitates partnerships to increase the supply of affordable housing. The Centre gives advice on legal, financial and regulatory solutions, experiments with new financing and tenure agreements and disseminates information on successful practices. The Centre actively seeks out partnerships, especially at the grassroots level with such organisations as existing non profit agencies who were previously involved in the provision of social housing, faith groups, ethnic and cultural organisations, builders, developers and municipalities.

The Centre provides a number of tools to assist in developing affordable housing, including:

- “best practices” guides,
- partnership research,
- expert advice,
- new business leads,
- interest-free Proposal Development (PDF) loans, and
- facilitating access to mortgage insurance to assist groups access low-cost housing financing.

CMHC Research on Producing Affordable Housing in Canada Through PPPs

CMHC has completed a number of research reports and case studies, available through CMHC's Canadian Housing Information Centre, which examines a range of alternative measures which could be employed to support the creation of affordable housing in Canada through public-private partnerships. The following lists both published reports currently available and upcoming research to be published in the near future.

Published Research

- Guide to Affordable Housing Partnerships
- The Role of Public-Private Partnerships in Producing Affordable Housing: Assessment of the U.S. Experience and Lessons for Canada
- Municipal Regulatory Initiatives: Providing for Affordable Housing
- CMHC's Affordable Housing Web Page (www.cmhc-schl.gc.ca)
- Comprehensive Analysis of Self-Build Housing Experiences
- Public-Private Partnerships in Municipal Infrastructure

Upcoming Research

- Affordable Housing Solutions: 15 Successful Projects
- Housing Trust Funds: Their Nature, Applicability and Potential in Canada,
- Guide to Creating Housing Trust Funds in Canada
- Background Research on Philanthropic Support for Affordable Housing
- Alternate Tenure Arrangements

CMHC Project Manager: David Scherlowski

Research Report: Municipal Planning for
Affordable Housing

Research Consultants: Ray Tomalty, Anna Hertz,
Peter Spurr

A full report on this project is available from the Canadian
Housing Information Centre at the address below.

Housing Research at CMHC

Under Part IX of the *National Housing Act*, the Government of
Canada provides funds to CMHC to conduct research into
the social, economic and technical aspects of housing and
related fields, and to undertake the publishing and distribution
of the results of this research.

This fact sheet is one of a series intended to inform you of
the nature and scope of CMHC's research.

The **Research Highlights** fact sheet is one of a wide
variety of housing related publications produced by
CMHC.

For a complete list of **Research Highlights**, or for more
information on CMHC housing research and information,
please contact:

The Canadian Housing Information Centre
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Telephone: 1 800 668-2642

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OUR WEB SITE ADDRESS: www.cmhc-schl.gc.ca/Research

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